

Internal Auditing

NEWSLETTER

School Employer Workshops

Nebraska Public Employees Retirement System (NPERS)

July 2009

Common Audit Issues

1 The total amount of gross wages used to calculate employee retirement contributions:

Compensation used to determine retirement contributions must include gross wages or salaries payable to the member for personal services performed during the plan year and includes overtime, holiday pay and member contributions to or for IRS §125, 403(b) and 457 Plans. Sick and vacation leave is included as long as the employee has *actually used it*. In addition, if a member is paid a stipend for attending a workshop for the benefit of his/her employment, it is considered a personal service performed and must be included in the calculation of gross wages when calculating employee retirement contributions.

- If an eligible employee who is participating in the School Plan **also** works extra duties or as a substitute, **all gross wages earned** for personal services performed are subject to retirement contributions. A way to check this is to review your payroll detail and look for any employee who has wages or salary with retirement contributions **in addition to** wages or salary without retirement contributions (applies to gross wages only and does not apply to district wide, permanent benefits also received).
- **Always ask each employee** at the time of hire with your district if he/she is employed with another Nebraska public school in any capacity. If the employee is eligible and already contributing to the retirement plan, you must also remit retirement contributions for the employee.
- When an employee of your school district is eligible and participating in the School Plan and is also employed part-time or as a substitute with another school employer, the other employer also must withhold retirement contributions on the part-time or substitute wages.
- When an employee works part-time with one or more participating school employers, the **total** number of hours worked with **all** employers must be considered when determining employee eligibility for retirement purposes. Substitute hours can not be included when determining eligibility.

Compensation used for determining retirement contributions must not include amounts paid to the member for unused sick leave or unused vacation leave; insurance payments converted into cash; reimbursement for expenses; fringe benefits; and bonuses for services not actually performed including early retirement inducements, cash awards and severance pay.

- If a school district pays for or specifically increases a member's salary to compensate for the Long Term Disability premium or insurance benefits, it is considered a fringe benefit and the amount can not be included in the member's amount of total gross wages when calculating retirement contributions. Even if the LTD premium is then deducted from the employee's gross wages, it is still considered a fringe benefit if the district specifically pays the employee the amount of the LTD premium.
- If a school district offers a higher hourly wage **only** for an employee who elects family health insurance, the difference between what the employee would have received as an hourly rate and the increased rate if insurance was taken out would **not** be subject to employee retirement contributions.
- If an employee elects not to receive insurance benefits and is instead paid the cost of those benefits, it would be considered ineligible compensation when calculating retirement contributions.

Our Purpose...

The School Employees Retirement System is governed by Neb. Rev. Stat. §§79-901 – 79-977.03, in addition to the Nebraska Administrative Code Title 303 Chapter 24. In administering the state's retirement systems, the Public Employees Retirement Board is directed by Neb. Rev. Stat. §84-1503(1)(g) to *"adopt and implement procedures in order to verify the accuracy of such information."*

Regarding the School Plan, Neb. Rev. Stat. §79-906(1) provides that *"The director shall, from time to time, carry out testing procedures pursuant to §84-1512 to verify the accuracy of such information."* The NPERS **Internal Audit Team** is then responsible for performing the testing. Quite simply, we are here to assist you in complying with State Statutes that govern the School Plan.

This Newsletter...

This newsletter is intended to identify areas often found in non-compliance with State Statutes and provide information on how to be "audit point free." We will also inform you of our internal audit process and what NPERS will require when you are selected for an audit.

Internal Audit Staff...

If you have any questions, need clarification, or would like to be selected for an internal audit, please contact a member of the Internal Audit Team.

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Tracking employee hours and the total number of hours worked that are reported to NPERS:

One year of creditable service is granted for a fiscal year (July 1 – June 30) in which an employee worked 1,000 or more hours. Service credit is defined by **actual service rendered** including holidays, sick and vacation days actually taken.

- The total number of hours an employee actually works, including regular and extra duty hours, must be reported to NPERS. NPERS does not assume every school employee will work throughout the entire school year and may actually work more or less hours than what is budgeted for the position. Hours worked by a non-salaried, hourly employee must be supported with a time card or time log information. Hours worked by a contracted 9-month employee can be calculated by dividing the total hours provided in the contract by 9 to determine monthly reportable hours; however, if the employee also worked extra duty hours, those hours must also be reported.
- The total number of hours an employee works per week/month determines eligibility for retirement contributions; therefore, the *employer must have documentation* of actual employee hours worked to support why an employee is or is not eligible to participate.
- We frequently find that total hours worked are not tracked or reported for bus drivers. Instead of tracking the number of routes a bus driver drives during the week/month, track the **total number of hours** the employee worked.
- We also frequently find that extra duty hours are not tracked. You *should have a tracking system* in place so you can report the actual number of extra duty hours to NPERS, whether or not the employee will meet the one year service credit minimum of 1,000 hours.

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Determining employee eligibility to participate in the School Plan:

Regular employee means an employee hired for a regular, full-time or part-time position who works a full-time or part-time schedule on an *ongoing basis of 15 or more hours per week*.

Substitute employee means an employee hired as a temporary employee on an intermittent basis due to the temporary

absence of a regular employee. Substitute employee does not mean a person hired as a regular employee on an on-going basis to assume the duties of another regular employee who is temporarily absent.

The **employer is responsible** for determining retirement plan eligibility for their employees. If you do not enroll the employee in and make contributions to the School Plan upon meeting eligibility requirements, the employee and employer must make up those missed contributions. Except for substitute employees, each person upon meeting eligibility requirements must participate in the School Plan. Public schools must ensure that all school employees who qualify for participation begin annual participation on July 1 of each plan year, upon the employee's date of hire if later than July 1, or upon meeting eligibility requirements.

You must refund any employee contributions to an employee who has not met eligibility requirements but was erroneously enrolled in the plan.

Example: Each employer must be able to provide supporting documentation of why an employee is or is not eligible to participate in the retirement plan. A list of non-contributing substitute employees must be supported by a substitute log. This should include **all substitute positions**, not just substitute teachers. Substitute employees who appear to work 15 or more hours per week/60 hours per month on an ongoing, regular basis will **not** be considered a substitute by NPERS standards unless the employer can produce a substitute log. Do not confuse a substitute employee with a part-time employee.

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Employer demographic and employment information:

The **employer is responsible** for ensuring the member demographic and employment information is updated in a timely manner. Incorrect demographic information prevents NPERS from communicating effectively with plan members and could financially affect members receiving a monthly benefit who have become reemployed with a participating school employer.

Incorrect member employment information may have a direct effect when calculating retirement benefit estimates and could delay the retirement process. In addition, incorrect employment information may have a negative effect on actuarial data.

Internal Audit Process

When you are selected for an NPERS audit, be aware of the internal audit process and requirements, as follows:

NPERS will send to you a letter with a School Employer Questionnaire for you to complete and return with the following information:

- Copy of your most recent payroll detail.
- List of all active employees, including:
 - Social Security number
 - Demographic information
 - Title of employment position
 - Date of hire
 - Date of birth
 - Whether or not the employee is enrolled and participating in the school plan.
- A copy of your Master Contract or agreement that explains your school district's explanation of benefits and policies (for the school year in question).

After NPERS completes the audit, we will send you a final audit letter identifying the required corrections. Your response to this letter is due within 20 days of the final audit letter date.

After NPERS receives the information, we will send you a second audit letter requesting additional information. We will select a sample of employees to review based on the number of contributing members in your district. For the sample number of employees identified, NPERS will require:

- Three months of payroll detail
 - Copies of applicable time cards for hourly employees
 - Hourly wage information to include overtime rate
 - Copy of contract for contracted employees
- Hours report for all non-contributing employees, or substitute log information.
- Miscellaneous employee questions